

# Pre-commercial Procurement of services innovation

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# Agenda

- Legislation and innovation policy
- Pre-commercial procurement (PCP)
- Definition of services innovation
- Innovation patterns of innovation
- Applying PCP to services innovation

# Legislative framework for public procurement

- European Directives:
  - 2004/18/EC public sector
  - 2004/17/EC Utilities
  - 2007/66/EC Review

## EU Treaty

- Free movement provisions;
- Equal treatment;
- Non-discrimination;
- Transparency (publicity);

Always applicable:

- Under the threshold;
- II B services;
- Concession for services.

# Innovation policy

- **March 2000** - Lisbon European Council
  - Strategic goal for Europe to become *'the most dynamic and competitive knowledge-based economy in the World by 2010, capable of sustainable economic growth'*
- **March 2005** - Barcelona European Council
  - Strategic goal to invest 3% of the GDP in R&D
- **March 2010** - Lisbon Strategy evaluation document, SEC(2010) 114 final
  - Lisbon/Barcelona goals not achieved (Europe -1,9%, while US 2,6% and Japan 3,4%)
- Europe 2020, A European strategy for smart, sustainable and inclusive growth, COM(2010) 2020

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# Role of Public Procurement within the Lisbon Strategy

- The request by public authorities of innovative solutions for the improvement of the public service is 20 times lower in Europe than in the US (2,5bn p.y. Europe/ 50bn p.y. US)
- Fragmented public demand
- Evaluation Report – increase in the use of public procurement but more is expected

- Art.16 (f) Directive 2004/18; art.24(e) Directive 2004/17:
  - The directives are not applicable to R&D contracts characterised by co-financing/risk-benefit sharing
  - Nevertheless compliance with the Treaty on the functioning of the EU

- COM(2007) 799 final, *'Pre-commercial Procurement: Driving innovation to ensure sustainable high quality public services in Europe'*
  - Phases:
    - Solution exploration and design
    - Prototyping
    - Original development of a limited volume of first products or services in the form of a test series
  - Maximum competition, transparency, openness, fairness

Important points of attention in PCP:

- Identify strategic tasks;
- Analyse whether the existent technology is outdated/need for a new/competitive solution;
- Market research to make sure that the improved solution does not exist;
- Analyse whether the competing offers regard technologies at one of the three development stages;
- Investigate whether the development of the desired technology necessitates R&D;

## Services innovation

- *Services in Europe – aprox. 70% of GDP and employment;*
- *Increased interest in economic theory on services innovation;*
- *Traditionally –*
  - *Doubts about the innovative capabilities of services*
  - *R&D expenditure associated with potential for innovation*
- *Characteristics of services:*
  - *Intangible (results difficult to measure)*
  - *Interactive*
  - *Information intensive*

## ServPPIN report: Cooperation for Innovation in Services

- *Assimilation approach (Pavitt, Barras)*
  - *application of technology is the only source of innovation in services*
- *Demarcation approach (Gallouj, Windrum)*
  - *A different paradigm for services than for manufacturing*
  - *Innovation indicators: design of new services, software development, acquisition of know-how, investment in new machinery and training.*
- *Synthesis approach (Belleflame, Metcalfe, Preissl, Drejer)*
  - *A comprehensive theory of innovation beyond the manufacturing-services dichotomy*

## ServPPIN report: Cooperation for Innovation in Service

- Gaps in the multidisciplinary knowledge-base of a service firm (knowledge is tacit, requires an accumulative process and is complex)
- Filled by exchange of knowledge within networks/ collaborative learning process

Economists recommend policy action:

- Public procurement
  - Promote service quality
  - Promote quality standards for services and their use of quality standards in public procurement
  - Favour innovative service firms in procurement
- Enable collaborative schemes (networks) between both research and industry and users and producers
- Incentivizing trainings for high-level skills
- Ensure funding

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### WHEN:

- Failure of the private market to stimulate companies to allocate enough resources to innovative activities;
- Justified by maximization of net social welfare;
- Essential to mobilise private financing;
- At an early stage of a company.

### HOW:

- Merit-based;
- Without refund condition;
- In coordination with other public policies (improve conditions in which these enterprises will operate before and after receiving the funding).

## Difficulties:

- R&D in services (often goes unrecognised) – indicators (Frascati Manual) - links with public research laboratories; involvement of staff with PhDs, or PhD students; publication of research findings in scientific journals, organisation of scientific conferences or involvement in scientific reviews; construction of prototypes or pilot plants;
- Shared benefits - Intellectual property in services;
- Services innovators – interested in a concept of PCP as developed by the European Commission (due to the low appropriability of the results);

# Status of PCP in Europa

- Brussel:
  - DG Research
  - DG Enterprise
  - DG Information Society and Media
- Best practices en methodologies are missing (except for projects in the defense industry)
- Pilots are being set up
- European Commission funding for PCP projects

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